The Ins and Outs of Managing During an Economic Downturn

Rick Burris
Oliver Wight Principal

Solution-Driven Integrated Learning Paths

- Educational Sessions
  - Lean
  - Global Supply Chain
  - Basics of Operation Management
  - Demand Management, Forecasting, and S & OP
  - Professional Advancement
  - Special Interest Topics
- Plant Tours
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Make the Most of Your Educational Experience

- Develop a Learning Plan
- Assess your learning needs
- Use teamwork
- Prepare to learn
- Create your own Action Plan
Rick Burris has been principal for Oliver Wight Americas since 2008, and spent the previous 14 years as president for 4 different manufacturing companies. He has been a leader in advancing the full integration of all aspects of business management into the sales and operations planning framework leading to integrated business management attributes and performance from both inside leadership positions and as a consultant.

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- Principal in Oliver Wight Americas
- MRPII project director for Martin Marietta Astronautics Group - 6 Class A Implementations;
- COO of Beauty Group International – high growth in poor South American economies with high inflation;
- President of Keller Systems International – start up ERP software provider during post 9/11 downturn;
- COO of Video Products Group – turn around a distressed business so family owners could sell;
- President of Wear Floeay, Inc. – re-invent an old operating unit of a multi-national company to return to profitability as a US based manufacturer;
- Clients include Boeing, Motorola, Motor Coach Industries, Broyhill Furniture, Yerger Brothers, Starwood Industries

Purpose of Session

Senior Executive Process Theme:
An economic downturn tests the leader’s skills and mettle. Beyond individual skills, it will also expose any weaknesses in the senior management strategic & business planning and execution process.

Purpose of The Session

- This session will discuss a disciplined management approach for succeeding during an economic downturn.
- It will discuss a process to make the best choices during an economic downturn and manage their deployment
- We will discuss how to ensure that your company not only survives but is positioned to rapidly grow when economic conditions improve
- We will discuss a management approach that includes critical thinking and scenario planning leading to integration of strategic and business planning with decision making
Decision Making Challenges

• Making the right or best decisions
• Adapting to changing conditions (frequently out of our control) – and making new decisions
• Making decisions that give the company greater control of the market – and the company’s future
• Getting – and keeping – the leadership team aligned
• Ensuring that decisions are executed with accountability

Some Common Realities in an Economic Downturn

• Business Plans are no longer valid but expectation for achievement is unchanged
• Profitable survival is a given in developing action plans
• Customer demands increase while willingness to pay for them decreases
• Customers fall behind on payments – customer credit worthiness becomes an issue
• Product introductions are viewed as an unaffordable luxury

Some Common Realities in an Economic Downturn

• Employees are fearful and spend time (work time) contemplating a bleak future and criticizing management actions or inaction
• Budget cuts are mandated with little regard for the workload
• Efforts to improve the business are abandoned to cut costs
• Short term profitability is not balanced with long term growth strategy
• Management activity to address realities is not apparent or well communicated
Economic Downturn – Common Immediate Actions

• Finance orders an X% across the board headcount reduction
• Non-labor budgets cut by X%
• Orders from suppliers reduced and/or cancelled
• All New Product introductions cancelled
• Discount promotions launched to the marketplace to generate revenue for the current quarter
• Budget for the ongoing process or system improvements eliminated
• Mandate for inventory reductions
• No spending unless approved by CEO, CFO or COO

Common Actions – Successful?

• Were these actions reasonable in the environment of the significant economic outlook change?
• Are the actions likely to be effective and fully integrated?
• What are the potential perceptions in the following areas as a result of these immediate actions?
  – Owners?
  – Employees?
  – Customers?
  – Suppliers?
  – Public Relations?
  – Financial?

A Different Approach

• Pause and reflect
  – Are we just surviving or are we preparing for a better future?
  – How long has it been since we really looked at the business without our preconceptions and prejudices?
  – We were not doing everything we needed to do in the good times to be completely effective – what is the impact of not fixing those deficiencies now? Once things get better?
  – What are the management imperatives during the economic downturn? Are they different from what they should have been during the previous growth period?
Perspective: We can't control the economy but we can control our reaction to it.

Cisco CEO John Chambers – “… based upon our experience through numerous economic downturns … it is entirely possible to come out stronger than you were before. Every time we have gained market share, and two years later, our customer and employee satisfaction was greater.”

Intel discussion on PBS – “… the downturn has freed up our product development capability so that we will introduce our new line of processors in 2010. We are telling our customers so that they can be ready.”

Critical Thinking Definition:

**Critical Thinking** is the intellectually disciplined process of actively and skillfully conceptualizing, applying, analyzing, synthesizing, and/or evaluating information gathered from, or generated by, observation, experience, reflection, reasoning, or communication, as a guide to belief and action.

- source: The National Council for Excellence in Critical Thinking

Strategic Thinking Definition:

**Strategic Thinking** focuses on finding and developing unique opportunities to create value by enabling a provocative and creative dialogue among people who can affect a company’s direction. It is the input to strategic planning—good strategic thinking uncovers potential opportunities for creating value and challenges assumptions about a company’s value proposition, so that when the plan is created, it targets these opportunities. Strategic thinking is a way of understanding the fundamental drivers of a business and rigorously (and playfully) challenging conventional thinking about them, in conversation with others.

- source: The Center for Applied Research
Key Elements for Managing in an Economic Downturn

- Strategic Planning and Business Planning Deployment
  - Strategic Planning not only states what you will do but also focuses employees and resources by defining what you will not do

Moving from Flawed to Sound

- Capable sales and operations planning or integrated business planning

Key elements for managing in an economic downturn

- Managing your customer base and developing better relationships
- Product portfolio management as a tool for surviving and preparing for the economic upturn
- Using the economic downturn to restructure your supply chain
Key elements for managing in an economic downturn

- Filling demand gaps by capturing business from underperforming competition

Opportunity Exploitation as it Relates to Competitive Economic Attrition

- Vultures
  - Wait for something big to die
  - Circle around a long time to make sure it's dead
  - Lots of them around by the time the feeding starts

- Crows
  - Eat anything big or small
  - Quick to attack, eating some times as it dies
  - Act in big and small groups with an individual focus

Key elements for managing in an economic downturn

- Repairing underperforming business processes and tools to give employees direction and position the company for the upturn

Value Added Equation: From Customer Perspective – Value added or Non-Value Added
From Company Perspective – Essential or Non-Essential
From Management or Benchmark Perspective – Worth the Cost or Not Worth the Cost

Key elements for managing in an economic downturn

- Management behaviors and messages that provide consistency in an unpredictable environment
A CEO’s Reflection - The decisions I make today will effect this company for years

General Executive Planning Focus Characteristics

Developing an Adequate Planning Horizon for Managing an Economic Downturn

- Develop a set of assumptions about the economy in general using multiple inputs from government and private sources
- Plan at least 12 months of economic recovery or 24 months total, whichever is greater
- Expect to change your outlook over time as the actual occurrences vs. anticipated economic conditions vary
- Develop impact models for your markets such as a one percent economic growth change causes a 5% change in your markets based on averages over the past 20 years
Portfolio Analysis

- History of large obsolete inventories?
- Merchandising strategy – if we can spell it, sell it?
- Lots of new products, fewer discontinued?

![Graph showing the percentage of 2008 Annual Sales from different revenue categories.]

- 25% of the SKUs generate 1% of the revenue
- 31% of the SKUs generate 1% of the revenue
### Possible Actions Resulting from Portfolio Analysis

- Elimination of part of the product offering with little top line impact
- Price increases on low volume products needed to complete a required market offering after investigating competitor pricing
- Eliminate some direct expense with little impact on revenue
- Eliminate significant indirect work and expense
- Significant reduction of inventories required due to mismatch between demand and minimum supply order quantities

### Portfolio Management Concepts

- **Goal**
  - Eliminate cost and complexity from business through removing marginal performers
- **Portfolio Management**
  - Products survive that shouldn’t in good times
  - Must investigate true profitability – not gross margin
  - Need better feedback from customers and their customers
  - Need detailed competing product info
  - Need good feedback from Supply – manufacturability, minimum order quantities, logistics, returns

### New Product Development Concepts

- **Goal**
  - Don’t throw new products at the marketplace to try and fill gaps – make sure long-term strategies remain driver
- **Define priorities and requirements to achieve goals**
  - Admit that Product Development needs to change to be successful in economic downturn
  - Be realistic on new product forecasts
  - Don’t feel bad about postponing launches that are suspect just because almost completed for launch
  - Must keep up with technology and/or style during downturn
  - Plan products to be individually profitable for both for the downturn and the upturn
  - Few companies have succeeded in changing their value proposition radically in an economic downturn
Documenting Assumptions

• Goal
  – Over the full horizon, make assumptions broad and deep enough to have all variances discussed as where assumptions were wrong not where the numbers were wrong

• A key weakness in most forecasting processes
  – Assumptions are general and nebulous
  – Assumptions aren't specific enough to calculate a numerical impact on Demand
  – Assumptions don't address all segments of the business
  – Assumptions don't address competitor or competitive reactions
  – Assumptions don't lead to variance analysis and refinement of the forecasting process

What should I believe about those assumptions - Identifying Risks and Opportunities

• Risks and opportunities
  • The thought process needs to be directly tied to assumptions
  • If a risk or opportunity cannot be directly tied to our assumptions, it is probably time to revisit and expand our list of assumptions

  – Risks
    • Which assumption at risk?
    • By how much?
    • How can we mitigate or prevent?

  – Opportunities
    • Which assumption has an upside?
    • How big is it?
    • How can we exploit?
    • What resources do we need to exploit?
    • When do we have to commit them?

Business Plan Gap Closure During an Economic Downturn

• What is a gap?
  – Revenue
  – Profit
  – Cash
  – Inventory
  – Supply

• Is it wise to always strive to close the gap between the stated business plan/annual objective and our latest projections of reality?
  – In what situations would it be better for the health of the company to decide not to close the gap?
  – In what situations would it be better to take actions to strive to close the gap?
Gap Closure

Monthly process to close gaps

- Gap closure in an economic downturn should focus on activities to capture market share.
- Gap Closure to Business Plans created before the Economic Downturn may not be realistic – no reason not to try.
- Key behavior – don’t commit to something you know you cannot achieve.
- Gap closure should never include plans to expand the product offering with low volume products that add cost and complicate the business.
- Stick to your core competencies during the downturn – competing in unknown markets rarely works in tough times – those occupying the space are better at it and will defend it viciously.
- Develop or prepare to develop new competencies during the downturn and plan to exploit thoughtfully after the turnaround.

Customer Analysis

- How much time do you spend reviewing your customer’s performance and their health?
- Is this all customers or just major customers?

38% of customers generating 2% of revenue.
Potential Actions Resulting from Customer Analysis

- Elimination of part of the customer base that is at financial risk during the downturn
- Develop key assumptions on the direction of the customer base in the economic downturn - target at risk, low volume customers first
- Preserve small customers with growth potential in an economic upturn
- Eliminate some direct expense with little impact on revenue
- Eliminate significant indirect work and expense, particularly in sales and sales support
- Promotions to increase customers' use of the technology for order processing/inquiry

Customer Appraisal

- Credit Policy and Collections
  - The only thing worse than not selling is selling, delivering and not getting paid
  - One size fits all does not address risks and opportunities
  - Better terms for credit worthy customers can help capture market share
  - Punitive terms up to cash in advance can mitigate cash risk
  - The sales force must be made aware of payment performance of their customers and understand the impact on selling
  - Executive review of collections performance at a more detailed level is required in a down economy

Managing Change in Cost Structure

- Understand costs of plan
  - Impact of reduced production on production overhead
    - less productive plant & equipment
  - Impact of labor cutbacks on labor rates
  - Transportation costs – smaller loads, expediting for change
  - Logistics and distribution costs
Customer / Supplier Relationships – Substance over Personality

• Make it easy to do business with your company
• Do what you say you will do
• Reliable processes
• Joint/Shared improvement efforts – key opportunities

Poor process performance costs money!

Broken or weak processes and tools need to be repaired as a cost savings / avoidance measure

– Demand that your finance organization lead an effort to calculate the economic impact of poor performance
  ▪ Lost sales
  ▪ Rework, multiple handlings
  ▪ Exediting or premium shipping
  ▪ Cash collection delays
  ▪ Other waste
– Prioritize and fund fixes based on economic benefit

What Needs Repairing?

• Each process should include measurements for the following:
  ▪ Volume Processed
  ▪ Productivity – Some resource divided by volume
  ▪ Planning effectiveness – ability to predict the future
  ▪ Execution performance
    ▪ Schedule
    ▪ Cost
    ▪ Quality
    ▪ Velocity
  ▪ Escapements - Individual occurrences that had an unusually large deviation from one of the four above measurements that could be hidden by simply looking at an average.
Executive Planning Processes Depend on Detailed Process Performance

- Broken or weak processes and tools need to be repaired to support effective executive planning and execution
  - Most companies have installed new processes and tools that have yet to fully perform
  - Without accurate, consistent output from supporting processes, executive planning and decisions will be adversely impacted
  - Economic downturn can provide an opportunity to refine and fine tune
  - Focusing on repairing the business can send the right message to worried employees
  - Fixing processes during downturn will prevent stressed processes and tools during growth—a real future competitive advantage

Decision Making Thought Process

- Build at least two different scenarios for decision evaluation
- Drive who participates in developing scenarios for decision making by the leadership team—most passionate advocates/adversaries
- Strategic context—will the decision be aligned with our strategies?
- If not, do we need a new or different strategy?
- Business plan context—will the decision support the business plan?
- If not, will a gap persist or can we close it profitably?
- Financial performance—how will the decision drive our financial performance?
- What impact on the Expectations of the Board...Wall Street?
- Customer context—How will the decision impact our customers?
- Employee context—how will the decision impact our employees?

The Truth

Managing in an Economic Downturn requires the same disciplines as Managing in a Growing Economy—however—the consequences of not managing effectively are much more onerous in a struggling economy.

Now we have to do well what we should have been doing all along.